

### MINUTES OF MEETING OPEN SESSION

August 15, 2005

The Investment Committee met on Monday, August 15, 2005 in the Lincoln Plaza Building, 400 P Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair George Diehr, Vice Chair Ron Alvarado

Philip Angelides, represented by John Hiber and Ted Eliopoulos

Marjorie Berte

Willie L. Brown, Jr.

Robert F. Carlson

Rob Feckner

Priya Mathur

Michael Navarro

Mike Quevedo, Jr.

Kurato Shimada

Steve Westly, represented by Toni Symonds

### **AGENDA ITEM 2 - APPROVAL OF AGENDA**

There were no changes to the agenda order.

#### AGENDA ITEM 3 – APPROVAL OF JUNE 13, 2005 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the June 13, 2005 Open Session minutes be approved as presented.

Ms. Berte and Mr. Feckner abstained.

### AGENDA ITEM 4 - COST EFFECTIVENESS MEASUREMENT (CEM) REPORT

Mark Anson, Chief Investment Officer, presented the item. Sandy Halim, CEM Inc., presented the annual informational slide presentation on the CalPERS' defined benefit investment benchmarking analysis.

A number of suggestions from the Committee regarding content and format will be incorporated in the 2006 report and requests for additional information relevant to the 2005 report will be forwarded directly to the Committee.

The Committee accepted the informational report.

### AGENDA ITEM 5a – REAL ESTATE, R Street Subcommittee Report

Mr. Hiber stated that the Treasurer would recuse himself regarding discussions or decisions about residential development within the R Street Project area. All representatives from the Treasurer's Office left the room.

Diana Proctor, Project Manager, presented the August 12, 2005, R Street Subcommittee meeting summary and highlighted the status of the headquarters building completion and move schedule.

The Committee accepted the informational report.

### AGENDA ITEM 5b – REAL ESTATE, Report on R Street Building Design

Bill Chilton of Picard Chilton Architects provided a history and overview of the design of the new CalPERS headquarters building.

The Committee accepted the informational report.

# AGENDA ITEM 5c – REAL ESTATE, International Real Estate Investing in Commingled Funds

Mike McCook, Senior Investment Officer, and Wenning Jung, Investment Officer, presented the item. Nori Gerardo Lietz, PCA, was available to respond to questions from the Committee.

There was a discussion regarding due diligence, Responsible Contractor Program, property management, child labor concerns, safeguard standards, and opportunities for CalPERS to extend its influence in these areas via international commingled funds.

The Chair directed staff to monitor the due diligence process and inclusion of labor standards in that process, and to report back with any concerns.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve permission for staff to invest in international commingled funds which contain strategies to invest up to 25% of the fund in countries not included on CalPERS' Permissible Equity Markets List. The selected investment funds will be subject to staff and PCA's satisfactory due diligence and negotiation of terms.

Mr. Eliopoulos, representing the Treasurer, voted no.

### AGENDA ITEM 5d – REAL ESTATE, Pension Consulting Alliance Review of CURE

Mike McCook, Senior Investment Officer, and Al Fernandez, Senior Portfolio Manager, presented the item.

In response to a request from the Investment Committee for a briefing on the preliminary performance and assessment of the California Urban Real Estate (CURE) Program, Pension Consulting Alliance (PCA) reviewed the performance, interviewed and surveyed the individual partners, and discussed the results with staff.

Nori Gerardo Lietz presented PCA's findings and conclusions.

Questions were raised regarding the definition of "urban" and the project incremental allocation process. These issues will be taken up by the Policy Subcommittee.

The Committee accepted the informational report.

The meeting recessed from 11:10 to 11:20 a.m.

#### AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

#### AGENDA ITEM 7a – GLOBAL EQUITY, International Equity RFP

Mark Anson, Chief Investment Officer, Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the issuance of a Request for Proposal (RFP) with a "Spring-Fed Pool" feature for (1) active international developed markets managers and (2) active emerging markets managers. The allocation of points for scoring purposes will be that the total points (not including points for fees) will be split evenly between the Committee and staff.

## AGENDA ITEM 7b – GLOBAL EQUITY, Investor Network on Climate Risk (INCR) Update

Mark Anson, Chief Investment Officer, Christy Wood, Senior Investment Officer, Bill McGrew, Portfolio Manager, Winston Hickox, Special Advisor-Environmental Initiatives, and Kelly Forrest, Investment Officer, presented the item.

On May 16, 2005, the Investment Committee directed staff to become a signatory on the 2005 INCR "Call for Action" by the Investor Network on Climate Risk ("INCR"). The "Call for Action" is a ten-point action plan focusing on four targeted sectors and while the signatories are encouraged to act on each action point, they are not required to do so. Staff provided information on how CalPERS will respond to each of the ten points of the "Call for Action."

A report regarding the Environmental Initiative on Utility Industry Transparency will be provided at the September Committee meeting.

The Committee accepted the informational report.

## AGENDA ITEM 7c – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update – Executive Compensation Update

Christy Wood, Senior Investment Officer, provided a status report regarding the component of the three-year executive compensation strategic plan relevant to engaging the executive compensation consulting industry. This process is ongoing and staff has met several times with four large executive compensation consulting industries and has focused on issues of transparency and overall pay-for-performance metrics.

The Committee directed staff, in conjunction with Health Benefits staff, to review and report regarding the impact of the PacifiCare and United Health merger.

The Committee accepted the informational report.

Ms. Symonds distributed a letter from the Controller to the Committee regarding his request that Morgan Stanley be considered as part of an executive compensation focus list and that CalPERS meet with the Chairman and CEO.

# AGENDA ITEM 7d – GLOBAL EQUITY, Corporate Governance Fund – Delegated Authority

Mark Anson, Chief Investment Officer, and Christy Wood, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve delegation of authority to staff to invest up to \$200 million for individual investments in new Corporate Governance Active Strategies. The delegation is expressly conditioned upon the receipt of a favorable due diligence report from one of a pool of consultants and that the Chief Investment Officer participate in the selection of the consultant.

### AGENDA ITEM 7e – GLOBAL EQUITY, Permissible Equity Market Research Contracts

Mark Anson, Chief Investment Officer, and Anne Stausboll, Assistant Executive Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

It was noted that the original contracts were for a three-year period with an option for two one-year renewals. This is the last one-year renewal and staff will report back at a later time with recommendations for making this a more efficient process in the future.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve a one-year extension of the Oxford Analytica and Verite contracts.

#### AGENDA ITEM 8 – GLOBAL FIXED INCOME

There were no items to report.

#### AGENDA ITEM 9 – POLICY SUBCOMMITTEE REPORT

By consent the Committee approved the following:

- a. Equity Policies
  - 1) Adoption of Developmental Investment Fund
  - 2) Revision of Equity Index Funds Internally Managed
  - 3) Adoption of Global Equity Sub-Asset Class Allocation Ranges
  - 4) Adoption of Corporate Governance Fund Investment Vehicles Externally Managed and Repeal of Hybrid and Hedge Fund Investment Vehicles Externally Managed
- b. Fixed Income Policies
  - 1) Adoption of Currency Overlay Program
- c. Real Estate Policies
  - 1) Revision of Responsible Contractor Program
  - 2) Revision of Equity Real Estate
- d. Miscellaneous Investment Policies
  - 1) Revision of Asset Allocation Strategy
- e. Administrative
  - 1) Proposed September 2005 Agenda

# AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of June 30, 2005, was approximately \$189.8 billion and the total book value was approximately \$147.7 billion.

### AGENDA ITEM 10b – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Wilshire Study on Calpers Corporate Governance Program

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the report and responded to questions from the Committee.

This is the second Wilshire report on the economic value of CalPERS' corporate governance activities. The study reviews CalPERS' activist program by studying the economic benefits achieved with respect to 117 companies engaged by CalPERS over the time period 1987 through mid-2004. These companies were engaged by CalPERS through shareholder proposals, the Focus List, and other governance methods.

The Committee accepted the informational report.

### AGENDA ITEM 10c – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Plexus Group Gold Iceberg Award for 2004

Mark Anson, Chief Investment Officer, reported that the Plexus Group, an independent third party that measures and analyzes equity trading costs, awarded CalPERS their Gold Iceberg Award for 2004. This means CalPERS ranks in the top quartile of pension funds with low equity trading costs based on Plexus' analysis of 48 funds, including four of the top ten US pension funds based on asset size. Plexus calls the award the Gold Iceberg as they believe the "Iceberg" is analogous to trading costs in that most are hidden much as most of an iceberg is hidden beneath the water.

# AGENDA ITEM 10d – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, CalPERS Performance Report

Mark Anson, Chief Investment Officer, reported that the return for the fund for the fiscal year ending June 30, 2005, was 12.7%, which outperformed our benchmark by 140 basis points on the total fund-wide basis. We contributed to \$2.5 billion of excess returns this last year. All staff are to be commended.

## AGENDA ITEM 10e – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, CFA Institute Corporate Governance Update

Mark Anson, Chief Investment Officer, reported that the CFA Centre for Financial Market Integrity accepted his suggestion to include the new term "shareowner" into its recently adopted "Corporate Governance of Listed Companies: A Manual for Investors." The CFA's manual is used throughout the financial services industry. The term "shareowner" is designed to reflect that CalPERS is an active owner of its investments and not simply a passive holder.

The Chair directed staff to review all investment policies and to bring an agenda item to the Policy Subcommittee changing the wording to utilize "shareowner" throughout.

#### AGENDA ITEM 11 – DRAFT SEPTEMBER 2005 AGENDA

The Committee discussed additional items and accepted the proposed September 19, 2005 agenda.

#### **AGENDA ITEM 12 – PUBLIC COMMENT**

There were no comments from the public.

The meeting was adjourned at 12:20 p.m.

The next meeting of the Committee is scheduled for September 19, 2005 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer